
MASSPORT

1985 Taking New England
to the future

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This report is dedicated to Robert M. Weinberg, Chairman of the Massport Board from 1977 to 1985. "Bob Weinberg is a man of exceptional vision and leadership. As Massport Chairman, he helped to foster better community relations, to create sound development strategies, and to maintain the highest standards of public management. He has earned the lasting gratitude of Massport and the citizens of Massachusetts." — Governor Michael S. Dukakis

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The annual report of the Massachusetts Port Authority for the fiscal year ending June 30, 1985.

Massport Embarks Upon A New Journey.



The administration of the Massachusetts Port Authority has always been challenging and rewarding. But, as with any job that balances growth and technological change with a sensitivity to community needs, our task requires constant flexibility and innovation. The context of our current activities is shifting so rapidly we must think anew, plan clearly, and act decisively to ensure that we remain a positive force for regional economic growth well into the future.

In creating a framework for future decisionmaking, Massport is driven by three fundamental changes:

First, we are experiencing extraordinary growth in air travel and shipping at Logan International Airport. Over the past ten years, as aviation has become more and more essential to daily commerce, the airport has enjoyed a 67 percent surge in passenger traffic and a near-50 percent increase in cargo volume. As growth continues, we must manage our limited airside capacity with ever greater skill and efficiency. Bounded by urban neighborhoods, and constrained by a limited roadway system, Massport must constantly pursue innovative new solutions to the environmental problems of growth in air traffic.

Second, as the only international gateway in New England, our airport/seaport complex stands as a vital link between our region and the rest of the world. Like the rest of the nation, New England depends on an open flow of imported commodities—but a recent Boston Federal Reserve Bank study showed that New England is far more export-oriented than most sections of the country. Our six-state region generates \$9 billion annually in overseas sales of products alone, while sales of international services also make a valuable contribution to our regional economy.

Third, highway traffic generated by strong economic growth continues to impose serious restrictions on access to our facilities. Today's 20 million passengers at Logan may well double in the next two decades; air cargo growth should lag only slightly behind. This growing ground traffic can be accommodated only through advanced, alternative forms of urban transportation.

Massport is not satisfied merely to cope with change. Our mandate is to help shape the changes in our regional transportation system in order to better serve the interests of Massachusetts and New England.

Helping New England choose the right paths to the future is our job. Supported by some of the best managers, planners, and professionals in the public sector, and joined by the Commonwealth's outstanding public and private leaders, Massport looks forward to embarking on this important journey.

David W. Davis
Executive Director
Massport

Logan International Airport: A Growing Force In The World.

During fiscal year 1985, Boston's Logan International Airport served a record 20.4 million passengers—10 percent more than in FY 84—making Logan the eleventh busiest airport in the world.

While overall international travel at Logan rose 4 percent, trans-Atlantic passenger traffic jumped 14 percent. Domestic passenger numbers showed an 11 percent increase, and the number of commuter travelers for the first time in history reached the one million mark. On November 21, 1984 Logan handled over 76,000 passengers, a new single day record.

New service included two flagship carriers, as Italy's Alitalia and Belgium's Sabena World Airways joined Logan's fleet of international airlines. Western Airlines came to Boston with new service to Salt Lake City and points west, while Midway Airlines returned after a brief absence. In a rapidly shifting deregulated airline market, four new commuter lines and one new domestic jetliner entered Boston, while four commuter and one U.S. jet carrier departed.

Renovations reached the halfway point at the airport's oldest and busiest terminal, which daily hosts 15,000 passengers of Delta, United, and TWA airlines. Massport's \$26 million program is aimed at making Terminal C the most "user friendly" at Logan, highlighted by improved ticketing, baggage handling, terminal circulation, and curbside and parking access—as well as some unusually thoughtful passenger amenities, including an ice cream parlor and a major bookstore.

Massport shifted six carriers to new locations at Logan to maximize efficiency and to give airlines the opportunity and space to grow. Northwest Orient Airlines, for example, needed additional gates at the International Terminal, as the carrier moved toward making Boston its trans-Atlantic hub.



The Future.

According to William C. Coleman, Massport's Aviation Director, "Ninety percent of Logan's passengers are beginning or ending their journey in Boston. Unlike air travelers in Atlanta and Chicago, Boston passengers are not merely passing through. Whether they live in New England, or are drawn to the region for business or tourism, Logan passengers require more service—access roads, ground transportation, baggage areas, terminal space, concessions, information. Satisfying those needs requires the very best in modern airport management."

Despite recent gains in air service, one of those needs is for additional international connections. Massport is pursuing a strategy aimed at holding Logan's advantage with London; identifying and expanding other critical markets; and widening opportunities for direct service to the Far East.

With a passenger volume increase of 31 percent for FY 85, Terminal E, Logan's international terminal, will be reconfigured to improve service. The shape of the new terminal will be determined, as will many other issues involving Logan's future, by decisions on how to integrate airport facilities with an anticipated new airport tunnel. The new tunnel, which will link Logan to points South and West via a seaport access road through South Boston, is part of a comprehensive downtown roadway package developed by the Dukakis administration.

Since the new tunnel project will affect Logan operations for the next ten years, a special land-use study is being conducted to ease the impact of construction on airport users, employees, and tenants.

In addition, Massport, in conjunction with other state agencies, is pursuing a regional air service strategy. To share the economic benefits—and the costs—of modern aviation more equitably, Massport is looking at development of auxiliary airports in Massachusetts and the region.



Terminal E—Logan's International Terminal

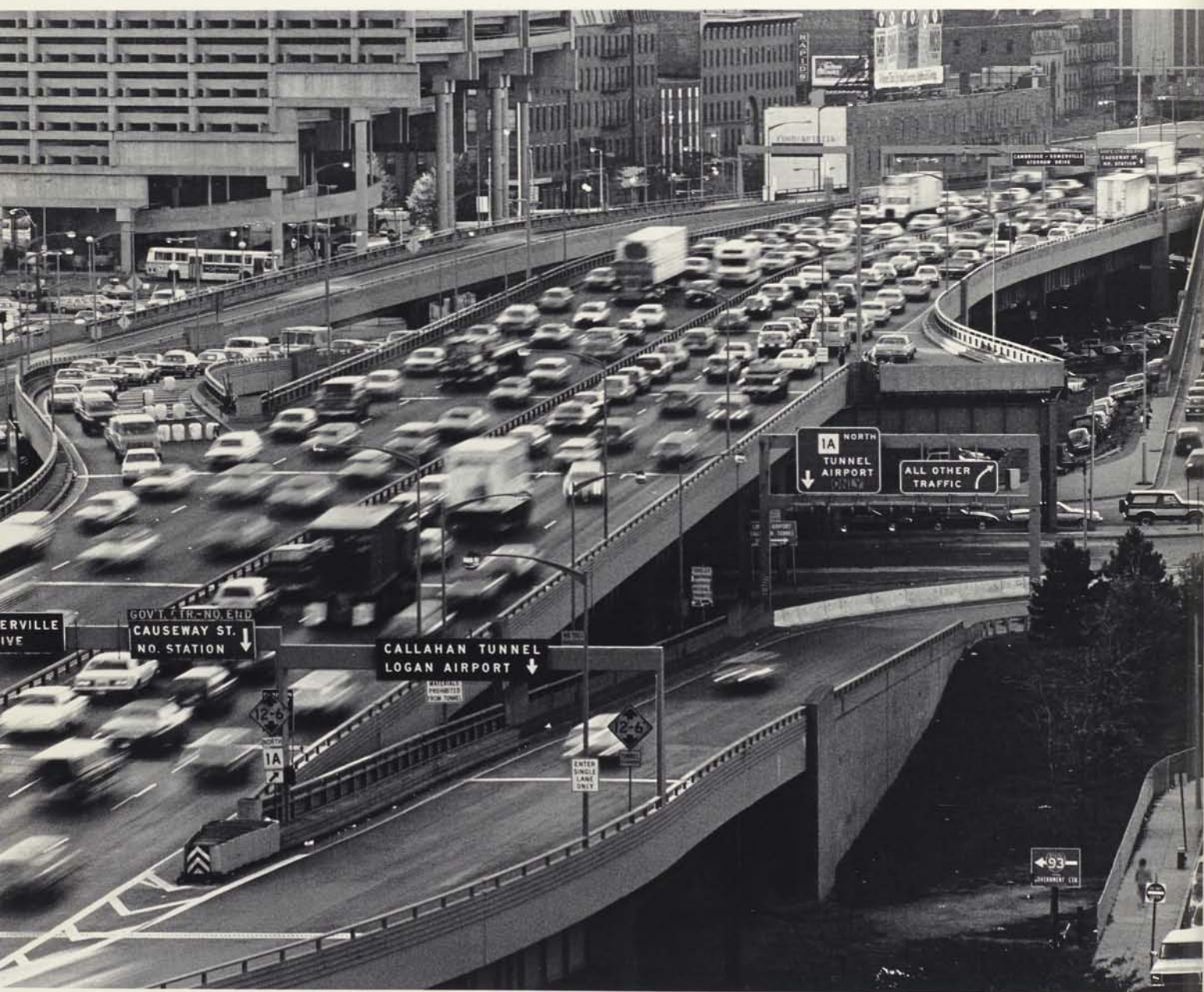
"Capacity at Logan is a finite resource, and with growing use, that resource is shrinking," Coleman said. Consequently, Massport is working with the Massachusetts Aeronautics Commission to see if other New England airports could fit into regional marketing opportunities and steer future growth away from Logan. For example, if the airport in Worcester, the region's second largest city, can

serve the air service needs of a significant market, its development would benefit both Worcester and Boston.

In the meantime, Massport is finding ways to make the passenger experience more pleasant. The Aviation Department has established a pioneering Service Standards program, patterned after the work of service businesses, such as restaurants and

entertainment centers, which specialize in efficient circulation of people. A study is under way to determine what level of service passengers can reasonably expect as facilities become more congested. Managers of airport services can then be held accountable to a precise set of standards for efficiency, courtesy, and timeliness.

Improving Access To Logan: The Ground's The Limit.



Like other rapidly growing airports, Logan International is suffering from ground access problems. The source of the new ground traffic is the robust good health of New England's economy, which has produced an 82 percent increase in passenger use at Logan in the past decade.

Unfortunately, three out of every four passengers travel to and from Logan via private auto, either as driver or passenger. This means more cars and trucks are trying to reach and leave Logan than can be accommodated by the current roadway and tunnel system, which is already well over capacity.

Consequently, Massport is a major partner in the Commonwealth of Massachusetts' proposal to secure \$2.2 billion in federal funds to widen and depress Boston's Central Artery and to build a new tunnel to the airport.

Inasmuch as the Artery/tunnel project will not be completed until 10-12 years after its approval, Massport has begun to develop other anti-congestion remedies of more immediate, albeit less comprehensive benefit.

First, operational changes have been made at the airport, including streamlining the airport roadway and modernizing Logan's busiest terminal.

Second, Massport has played a leading role in persuading airport commuters to consider alternatives to the private automobile through an advertising program aimed at the

flying public and through a special video presentation targeted to major employers, travel agents, and opinion leaders.

Coupled with eliminating the 25-cent fare on the airport shuttle bus, the advertising seems to have paid off. On the busiest day of FY 85, ridership on the shuttle bus increased 62 percent over the same day one year before, and non-scheduled limousine service improved 89 percent.

Finally, water taxi service to the airport with free, direct bus service to terminals was opened on a test basis on July 1, 1985. Using Massport's new ferryboat dock on Logan South, two private operators began providing airport service to downtown and the South Shore.

The Future.

"There is every reason to believe that today's 20 million passengers will double over the next two decades; cargo growth will trail only slightly," predicts Massport's Director of Planning, Adel Foz.

"Increasing passenger and cargo demands will be focused on Logan for many years before satellite airports are more fully developed," he explained. "Congestion thus looms as a major threat to the economic health of the entire region."

Beyond the regional airports strategy, Massport is pursuing development of remote, reduced-rate parking lots at suburban locations. Airline passengers would leave their cars at the centers and ride to the airport in express shuttle buses—possibly in priority-dedicated traffic lanes.

As Massport plans for the introduction of a new tunnel at Logan, the Authority faces major and far-reaching decisions to assure that the airport remains functional during the ten-year construction period.

The airport must be altered without further encroachment on neighboring residential areas: in fact, Massport's plans also include a commitment to move airport-related activities back onto Logan property.

Logan facilities must be substantially redesigned to improve terminal, parking, access, circulation, baggage, and cargo services. One likely improvement will be at the MBTA's Airport Station, where Massport is looking for ways to speed and simplify the movement of people and baggage from the Shuttle bus system to the cars of the Blue Line. Satellite terminals and people movers are among the other means under consideration to keep Boston passengers flying the "friendly grounds" of Logan.



Logan South: The Future Takes Shape.



Logan South, a 90-acre parcel of prime airport property, is changing the face of Logan International Airport. The site is host for a number of vital, non-passenger uses—air cargo, high technology and aviation services, general aviation, and public waterfront parks—all in a compact, highly accessible area with ample parking.

Overall air cargo volume at the airport reached 670.4 million pounds, a 6 percent increase over FY 84. According to a 1983 study, Boston is the 6th largest U.S. gateway in value of international shipments. Europe accounts for 80 percent of Logan's exports and 86 percent of its imports.

Federal Express, which has already invested \$15 million in a package handling and sorting center at Logan South, designated Boston as its backup trans-Atlantic hub. The small package giant is also considering using Logan as a domestic mini-hub for regional shipping and sorting.

King Interests of Houston, the largest developer of airport cargo facilities in the U.S., completed construction of a \$3.5 million air cargo center. The multi-tenant building, with 88,000 square feet of urgently needed cargo handling space, opened on Logan South in July, 1985.

Northwest Airlines completed its first year of operations at its \$5.6 million freight complex, showing a 36.3 percent boost in Boston cargo volume. The 60,000 square foot cargo terminal is capable of working two 747-sized aircraft simultaneously.

The Massachusetts Technology Center, a new concept in airport development, is a privately financed commercial building adjacent to Logan South's cargo areas. With a third of its space leased up, including the entire top floor, MTC allows firms that ship by air to maintain parts and service areas on the airport to avoid off-airport trucking costs and delays. As a designated Foreign Trade Sub-zone, the MTC can also serve as a site for businesses interested in FTZ savings on import-export operations.

On the water's edge of MTC, Harbor-side Walk is under construction. The half-mile long walkway will provide waterfront access and scenic vistas for the Jeffries Point community and airport visitors. A major part of this new project is Massport's \$2.5 million new dock for the Authority's fireboat and airport water shuttle.

The Future.

The goal of Massport at Logan South is to consolidate airfreight operations and create a full service area that specializes in high-speed cargo handling and international airfreight shipping. The Mass Tech Center serves two additional needs, providing a valuable regional business resource, and—not incidentally—serving as a very effective noise barrier for adjacent residential neighborhoods.

To keep pace with New England's growing cargo needs, Massport has worked with the airlines to increase Logan's airfreight lift capacity and open important new markets. With new cargo handling facilities now complete and generous parking available, the major challenge for Massport at Logan South is to dramatize the value of a coordinated air cargo/foreign trade/high tech complex. "Each component is working well," said Aviation Director Coleman. "The next step is to get them working as a total package."



Logan Noise Abatement: Still Ahead Of Its Time.

As Logan International Airport has enjoyed unprecedented growth in passengers, cargo, and new service, it has experienced no significant increase in overall noise—the result of one of the nation's most aggressive, innovative noise abatement programs.

According to Massport's Noise Abatement Office (Aviation), noise at Logan has actually declined over the past five years. At the end of FY 85, 90 percent of all operations in Boston were conducted in aircraft that met or exceeded federal noise control standards.

Recognizing that the airport is surrounded on three sides by densely populated neighborhoods, Boston's carriers have cooperated by adjusting their "fleet mix" to ensure that Logan routes are served whenever possible by newer, quieter aircraft.

Massport's innovative computer-aided noise sharing system, PRAS (Preferential Runway Advisory System), allows controllers in the Boston Tower to assign runways and provide relief to communities affected by takeoffs and landing patterns.



During 1985, Massport has or will soundproof 12 schools most immediately affected by Logan noise, following significant reductions measured at three others—in East Boston, Winthrop, and Chelsea—where similar work was completed. (As more FAA funds become available next year, the program can be expanded to additional schools.)

"Neither PRAS nor school soundproofing nor the over-the-water takeoff procedure could have been achieved without the support—both administrative and financial—of the Federal Aviation Administration," said Executive Director Dave Davis. "The FAA has been highly responsive in helping Massport pursue a bold, effective noise abatement course."

The Future.

Based on the results garnered from last year's pilot residential soundproofing program, the Authority has embarked on a three-year program to provide at least 100 homes with acoustical construction treatment. The program will provide for the improvement or, where necessary, the replacement of all windows and doors, as well as for comprehensive acoustical treatment of one room per home (to be selected by the homeowner). The new program will be dependent on receipt of FAA funds, which are expected to cover 80 percent of the estimated \$3.8 million cost of this three-year initiative.

In order to permit the quietest, most orderly possible growth, Massport is moving to update its noise rules governing aircraft operations at Logan. First adopted in 1976, the rules were amended in 1980.



"To keep pace with changes in the airline industry and the Boston fleet, we feel it's a good time to sit down and make adjustments," observed Assistant Aviation Director Claire Barrett. "We don't want to put a cap on the growth of air service, but we do want to put a cap on noise."

Not long ago new service in Boston tended to mean larger, quieter aircraft. Today, however, Logan's greatest growth is in the Northeast corridor markets of New York and Washington where smaller aircraft and frequent flights are the norm. Deregulation has also spawned new,

low-overhead carriers that tend to fly older, noisier aircraft.

"The new noise rules will set goals that will keep Logan as good a neighbor as an airport can be," said Barrett.

Hanscom Field: Building A Better Future.

Located 18 miles northwest of Boston in Bedford, Massachusetts, Hanscom Field remains a valuable resource for the Commonwealth's corporate and general aviation fliers. In FY 85, a strong state economy generated additional corporate and commercial traffic, and the number of operations at Hanscom grew at the modest rate of 6.8 percent.

"We're really quite fortunate," said Planning and Statistics Supervisor Joyce Hals. "The Massachusetts economy is booming, but the corporate and general aviation growth at Hanscom has been fairly easy to manage. In particular, we've noticed that many of the operators here are using newer, quieter aircraft, so, while traffic is up slightly, there has been no overall increase in noise levels."

1985 also marked the replacement of one of Hanscom's two fixed-base operators. Jet Aviation of America took over from Stead Aviation as a supplier of complete aviation services to Hanscom users, with Beechcraft East continuing as Hanscom's other full-service fixed-base operator.



As part of its start-up of operations at Hanscom, Jet Aviation is building a \$3 million, 36,000 square foot hangar and office facility due for completion in December of 1985.

Additional airport improvements for the year include the construction of 38 new "T" hangars, providing cost-efficient storage and repair space for aircraft based at Logan. Eight of the new hangars will be large enough to accommodate the multi-engine, multi-passenger aircraft used by area corporations.

Earth removed from the "T" hangar construction site has been used to create a 300-foot long, 20-foot high noise berm designed to protect Bedford homes adjacent to the take-off acceleration area of runway 29. The affected residents have reported a noticeable improvement in noise control.

The Future.

The FAA has leased land at Hanscom as a site for installation of a new category I Instrument Landing system (ILS), as well as a Medium Intensity Approach Lighting system with runway indicator lights (MALSR) which will serve Hanscom's Runway 29.

The new equipment, which will be operational in January of 1986, will allow aircraft using Hanscom to maneuver with greater safety and efficiency over a wide range of weather and lighting conditions.



The Port Of Boston: Back To The Future.



General cargo handled at Massport's public terminals in the Port of Boston topped the 1 million ton mark for the first time since 1972. Valued at \$4 billion, this year's tonnage represented a 25 percent increase over FY 84.

Led by a whopping 60 percent jump in volume in the third quarter, FY 85 performance was outstanding in virtually every area: 39 percent more containers were handled, 28 percent more imported vehicles were unloaded, newsprint tonnage rolled up a 61 percent gain, and lumber stacked up 99 percent higher.

Boston's regained role as New England's Home Port is a credit to the region's shippers and the port's waterfront industry and workers. Nevertheless, the port's turnabout began when Massport embarked upon a three-part strategy:

1. Build and improve modern terminals and find new uses for obsolete piers. Since assuming responsibility for the port's public terminals in 1959, Massport has invested \$116 million in maritime development to assure the port's future. At the same time, outdated waterfront properties have been leased to private developers who are providing valuable cross-subsidies for marine cargo operations.

2. Maintain competitive rates and service. Sharp competition from other ports required Boston to offer New England shippers more competitive rates and improved service. A new labor agreement, with productivity standards and lower labor costs, combined with new management, operational changes, and modernized equipment, have strengthened the port's competitive position.

Massport was actively involved in achieving the favorable outcome of a case before Federal Maritime Commission that would have jeopardized the port's future by significantly raising rates for goods shipped between Boston and New York.

3. Bring new shippers and steamship lines to Boston. Throughout the past year, Massport has aggressively marketed the significant cost and time savings of Boston for New England shippers. Simultaneously, Massport's Maritime Department has traveled throughout the world to bring new steamship lines to Boston, stressing its extraordinarily high value cargo—cargo, which at \$3,594 per ton, is twice the national average.

In the Port of Boston, Massport owns three general cargo terminals: Moran Container Terminal, a 44-acre public terminal with two container cranes in Charlestown; Conley Terminal in South Boston, a 101-acre, three-crane complex; and Massport Marine Terminal in South Boston, a 47-acre, multi-purpose facility featuring one of the busiest imported auto centers in the U.S.

The Future.

"Having demonstrated the vitality of the Port of Boston," Massport Maritime Director Anne Aylward explained, "our most urgent challenge is to remain competitive and keep pace with changes in the maritime industry."

Specifically, the Boston Bill of Lading must be protected to keep New England from being placed at the mercy of ports and political jurisdictions outside the region. To preserve the port's \$178 million annual economic impact and 3,200 jobs, Massport is creating a political-business-labor constituency and forming a Port of Boston advisory committee.

Meanwhile, Massport is spending \$2 million on an overhaul of the two container cranes at Moran Terminal, and investing \$8 million in a complete modernization of adjacent Mystic Pier. The Authority is also paying close attention to preserving waterfront space for working port activities—landbanking—to protect existing and future facilities.

A number of operational and facilities changes are also under consideration: automated customs clearance, export trading companies, better rail links, inland terminals, and centralized shipping information.

Massport's maritime properties along the South Boston waterfront will benefit from a new seaport access road that is part of the Artery/tunnel proposal before Congress. Planning is underway to keep trucks off South Boston residential streets during construction.

Because the Shipping Act of 1984 has permanently changed the environment for U.S. ports, Boston must help shippers find ways to take advantage of service contracts and volume discounts. As carriers move toward centralized operations and as intermodalism offers new paths to traditional markets, the Port of Boston must seek new ways to handle cargo and serve inland shippers.



Waterfront Development: The Future Is Now.

Massport's responsibilities in Boston Harbor include a number of older waterfront properties which, due to changes in technology and space requirements, are no longer suitable for modern maritime operations. The Authority's strategy is to act as a public entrepreneur, to recycle these obsolete piers through private developers.

The result, according to Elliot Friedman, Massport Director of Real Estate Development, is that "Massport is creating new and redeveloped properties that improve the regional economy, enhance public access to the harbor, attract investment to areas that need it, provide jobs for area residents, and generate new revenues to support Massport's maritime operations."

Constitution Plaza.

Nowhere is the success of Massport's public entrepreneurship more visible than at Charlestown's Hoosac Pier. Like its historic neighbor, the *U.S.S. Constitution*, Hoosac was a relic from the past, but, unlike "Old Ironsides," the old warehouse and pier had become a deteriorating and useless hulk.

Today, Hoosac has been transformed into Constitution Plaza, a two-building complex containing 145,000 square feet of office space, now over 90 percent leased; and a 15,000 square foot waterfront restaurant, overlooking the *U.S.S. Constitution*.



The \$18.5 million development, opened in the spring of 1985, also includes a new marina, public walkway, benches and parking, giving residents and visitors renewed access to the harbor. The three-story brick building conforms to the architectural character of Charlestown and nearby Navy Yard redevelopment and complements its historic neighborhood.

This successful development was the work of Hoosac Pier Associates, a joint venture that included O'Connell Development Company; John Drew Company; Corcoran, Mullins & Jennison, Inc.; and Old Forge Realty.

World Trade Center.

To strengthen Boston's growing commercial ties to world markets and enhance services to the import-export industry, Massport and a reshaped development team are embarking upon a bold, exciting new course for 70-year-old Commonwealth Pier.

With assistance from Massport and the International Business Center of New England, the development team won designation as the operator of an official World Trade Center. Scheduled to open January 1986, the 865,000 square foot WTC provides office space, a market center, exhibition areas, and a conference center equipped with state-of-the-art telecommunications.

The new concept found immediate acceptance: the WTC Exhibition Center is completely booked through 1988 with 25 commercial exhibitions worth \$10 million annually to the local economy. Nearly half of the Center's 200,000 square feet of high tech demonstration and display space has been leased by leading U.S. manufacturers. Businesses and government agencies involved in international trade are also taking office space at WTC.



The Boston Fish Pier and the new World Trade Center.

John Drew, spokesman for the development team, explained the \$85 million World Trade Center complex will be a "one-stop shop for international trade, with representatives of government, consulates, banking, shipping, and related services gathered under one roof." Others in the joint venture include O'Connell Development Company, Forge Development Corp., Pier 5 Limited Partnership, and Fidelity Investments.

The project, now completing its first stage, will also provide water taxi service to Logan, and shuttle bus service to South Station.

Boston Fish Pier.

Work is nearly complete on a \$24 million comprehensive renovation of the Boston Fish Pier, a vital waterfront facility with a proud history and bright future. The revitalization includes modernized processing and docking facilities and improved utility systems.

Stabilization of Boston's fresh seafood industry was supported by an \$8.5 million federal grant and Massport funds. In addition, prime office space being leased on upper floors of the Pier structures (no longer needed for modern fish processing) is providing market rate rents to support the pier's fishing operations.

Northern Avenue Investments.

Along the Northern Avenue corridor of South Boston, Massport has made investments in new sewer and roadway systems which have literally paved the way for development at Boston Marine Industrial Park, as well as Massport's new Black Falcon cruiseship terminal and the World Trade Center at Commonwealth Pier. In direct support of the new WTC, Massport is also building a new 1,600 car parking garage adjacent to Commonwealth Pier.

Water Transportation: The Wave Of The Future.

As a major landlord on Boston's waterfront, it is only logical for Massport to be interested in developing increased use of water transportation. With Boston's airport and seaport facilities being squeezed by ground access problems, water transit has become an urgent priority.

Airport Water Taxi.

The last regular ferryboat service to East Boston was discontinued in 1952, although use of the harbor to move passengers dates back to 1631.

On July 1, 1985 water taxi service to and from Logan International Airport was launched, on an experimental basis, under an agreement between Massport and two private ferryboat operators with experience in Boston Harbor.



The water taxi picks up and drops off airport passengers at locations in downtown Boston and South Shore suburbs. Massport has made a major commitment to promoting the new service, which includes free shuttle bus transport between Logan's new \$2.5 million ferryboat dock and its air terminals.

During its initial evaluation period, the water taxi has offered 24 trips each weekday; Massport and the State Department of Transportation will be reviewing the experiment to determine how and whether it should continue.

"If successful, this new water taxi will play a leading role in creating a comprehensive water transport system in Boston Harbor," said Anne Meyers, Massport's Deputy Director for Development. "There's no reason why water taxis cannot ultimately serve all of Massport's waterfront properties, including our marine cargo terminals, the World Trade Center, the Mass Tech Center, Constitution Plaza, and the Fish Pier, creating a coordinated transit system which would also connect to downtown, the South Shore, and—of course—to Logan Airport."

Black Falcon Cruise Terminal.

To accommodate reinvigorated cruise-ship business in Boston, Massport has developed a \$5 million cruiseship terminal near the Boston Army Base. Black Falcon Cruise Terminal provides services to oceangoing vessels and serves as home port for a special dinner cruise vessel operating in Boston Harbor.

At the request of Boston's Long-shoremen's union, Massport named the new terminal after a vessel on which 12 dockworkers were killed in 1953. The year-round center is large enough to handle a 1,200-passenger vessel and 600-passenger ship simultaneously and permits Massport to shift cruiseship operations from Commonwealth Pier.

As the State's tourism campaign drew more visitors to Massachusetts, an estimated 25,000 people used Boston's cruiseship facilities in 1985. With a modern new passenger ship terminal, Boston is now in a position to attract a larger share of holiday and cruiseship traffic along the Atlantic coast, especially from the eastern coast of Canada and Bermuda.

Massport hopes to expand cruiseship calls threefold, adding a new dimension to Boston as a tourism center and providing new revenues and jobs for area restaurants, hotels, and retail stores.

International Marketing And Tourism: Expanding Business With The World.

As the operator of our region's principal international air and sea gateways, Massport is intimately involved with foreign trade and travel.

International marketing is therefore a high priority for Massport, and the Authority has worked in partnership with the Commonwealth of Massachusetts and other New England states on a host of projects. Joint ventures included the cosponsorship of airport promotions, overseas trade missions, development of fly-drive packages for foreign travelers, setting up familiarization trips for foreign travel and business agents, and negotiating tie-ins with airlines, hotels, country inns—even television stations.

In March of 1985, Massport organized the first New England trade delegation visit to Nagoya, Japan. Led by Governor Michael S. Dukakis, ten companies participated in a four-day "Made in U.S.A." fair, the sole purpose of which was to increase sale of U.S. goods in Japan. The expedition was rated a success by nearly every member of the delegation, with 20 percent of the participating businesses making sales or locating agents in the difficult but lucrative Japanese market. Massport's Japan Office continues to provide follow-up support for trade fair participants and other New England businesses.

The Authority's European office, headquartered in London, handles trade

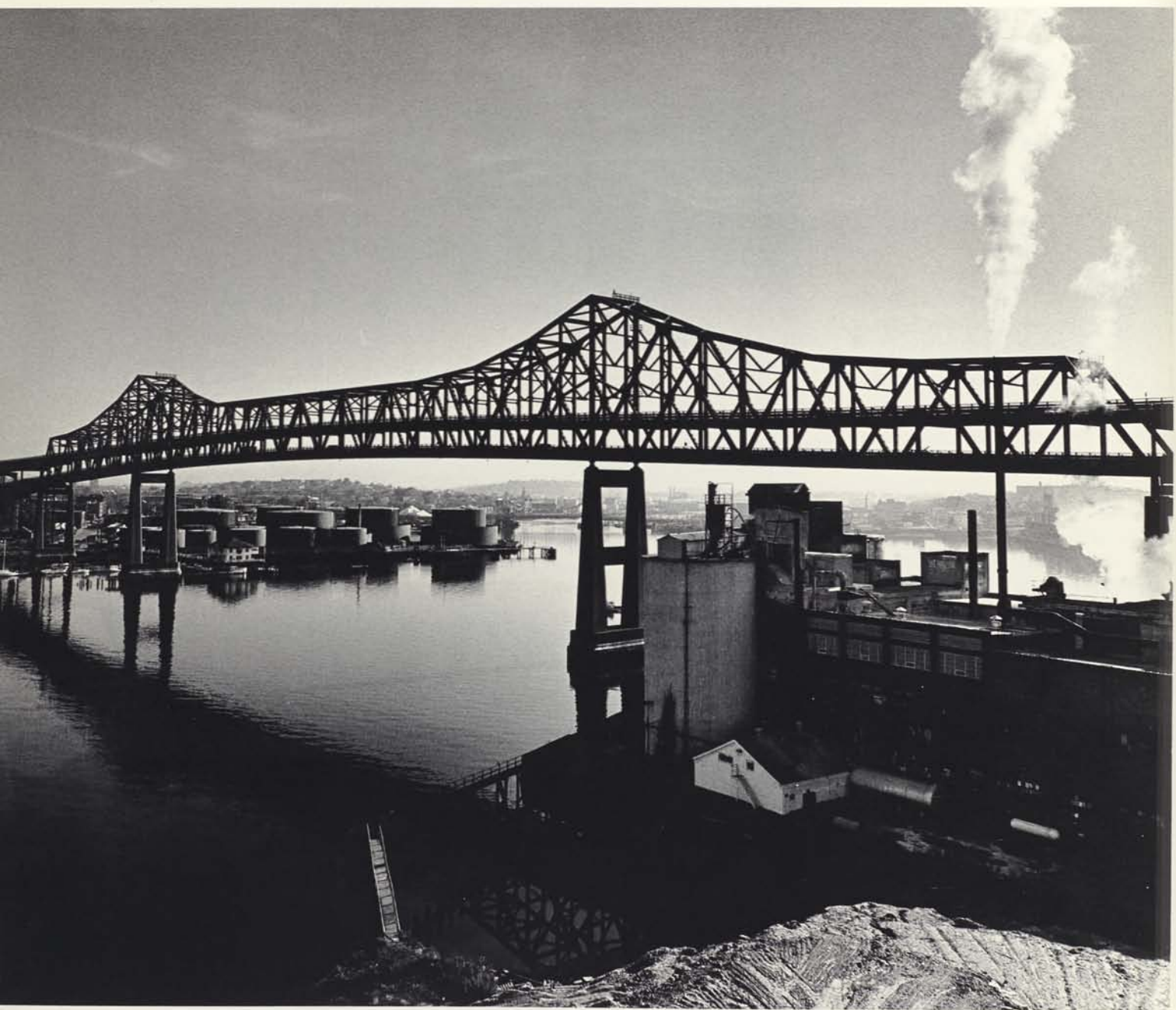
promotion work, sets up meetings with overseas companies, and assists in both maritime and aviation marketing in Europe. Massport's foreign connection is also available to importers, who benefit from the availability of up-to-date information and overseas technical support.

To improve the efficiency of an assembly operation which depends on imported components, the management of General Motors turned to Massport for assistance in securing Foreign Trade sub-zone status for their Framingham plant. As the license-holder for FTZ #27, Massport was pleased to help the GM plant, widely regarded as one of the nation's best, in its efforts to grow and prosper in a highly competitive industry.

The future of the New England economy is tied to the ability of the region's businesses to compete in the international marketplace. Over the past 10 years, New England exports have grown by over 400 percent. Massport's contribution to this growth has gone far beyond the provision of first rate transportation facilities. Tapping its experience and resources in international business, Massport will continue to use its Trade Development Program to provide technical assistance to New England exporters, and to support the Commonwealth's statewide export initiative.



Tobin Memorial Bridge: The Second Generation.



On February 27, 1985 Massport's Tobin Memorial Bridge celebrated its 35th anniversary. Back in 1950, the Mystic River Bridge, as it was called until 1966, carried 8.6 million vehicles. In FY 85, more than 29.4 million vehicles crossed—a 72 percent increase over its first year.

Remarkably, the price of using the bridge has changed little. In 1950, the motorist paid 30 cents for a roundtrip passage—and only 20 cents when equipped with a commuter sticker. Today, the same trip costs 50 cents, or 30 cents with sticker. In fact, passenger car toll charges at the Tobin have been unchanged since 1953.

Rising 135 feet above the water at high tide, the Bridge cost \$27 million and required 3 years (and 30,000 tons of steel) for completion. Over a quarter-century later, it took 7 years and \$13 million to remove lead paint and repaint part of the span with a non-lead rubber-based paint.

At 2.4 miles, Tobin is twice as long as the Brooklyn Bridge, and longer than San Francisco's Golden Gate. More than 50 employees work its three shifts; to keep traffic moving smoothly around the clock, Bridge personnel offer free emergency breakdown service to over 5,000 motorists annually—and the traffic *does* keep moving: the Bridge has been closed only once in its history, when a gravel truck struck a bridge support in 1973.

Named for former Boston Mayor and Massachusetts Governor Maurice J. Tobin, the bridge is statistically the safest path for travelers between Boston and the North Shore. In May

of 1983, with the implementation of a highly successful state-coordinated one-way tolls program, Massport began collecting tolls on the southbound lanes only, and northbound drivers found that their trips were not only safer but significantly faster.

The Future.

"We put a premium on service," Bridge Director Joseph Greene said. "Service is something we never stop improving."

Current capital improvements for the Tobin Bridge include a new overhead lighting system for better roadway visibility, a closed-circuit monitoring system to improve traffic flow, a new signal and sign system to give motorists better information on road conditions, and the rehabilitation of roadway riding surface and its supporting steelwork.

To protect the health of its nearest neighbors, Massport will again sponsor free blood lead screening to test residents immediately adjacent to the bridge. Lead levels in the soil of properties abutting the Bridge are also a continuing subject for testing and monitoring.



A More Secure Future For All.

Massport will be in a strong financial position for many years ahead. This enables the Authority to enhance and protect the future of its transportation facilities, ensures that Massport remains an attractive investment, and thus has access to reasonably priced funds to pursue its objectives.

"One of our most important obligations is to balance the need for sound fiscal practice with the responsibility to encourage opportunity and to share the cost of maintaining necessary community services," said Administration and Finance Director Gloria Vokonas. "Massport has kept that balance for the past decade, but changing financial and social conditions have created new challenges—we can't afford to rest on our past achievements."

Massport remained the only authority in the state to make in-lieu-of-tax payments to municipalities affected by its operations. Massport payments to the communities of Boston, Chelsea and Winthrop over the last six years total more than \$32.5 million.

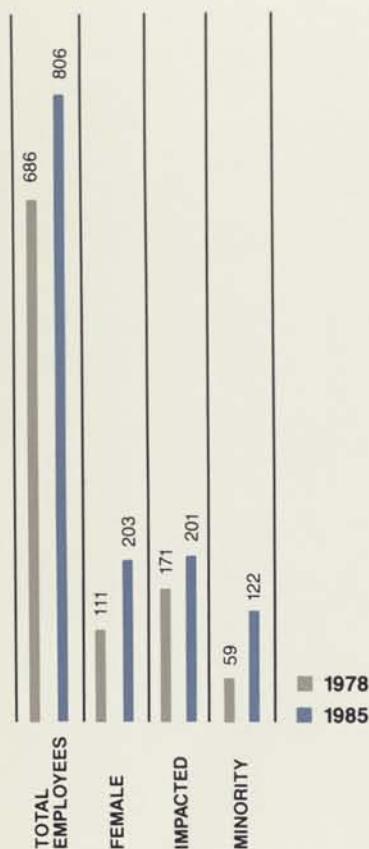
In October of 1984, working in conjunction with Governor Dukakis and the State Office of Elder Affairs, Massport provided direct assistance to East Boston's senior citizens by opening the Anna DeFronzo Senior Center. The new Center is located on Airport property near the site of the famous "Maverick Street Mothers" march in 1968. That march, which served as an effective protest against plans to expand Logan Airport, marked the beginning of Mrs. DeFronzo's distinguished career as a community activist and organizer. The Senior Center which bears her name now provides valuable recreational and social facilities for older East Bostonians. The furniture and first-year funding have been provided by Massport. Future operating costs will be the joint responsibility of Massport and the State's Office of Elder Affairs.

FY 85 was also a year of substantial progress on the Neptune Road Relocation Program, a twelve-year effort to relocate 178 families away from a neighborhood located less than 2,000 feet from a Logan runway. The final phase of this effort—the \$3.9 million Neptune Road Replacement Housing Program—will conclude with the relocation of 22 remaining families to two new, preferable sites in East Boston. Sixteen modular homes have been built on these sites, allowing families to remain in close proximity to their friends, relatives and their parish, yet also escaping the high noise levels directly adjacent to the Airport. Massport is applying to the FAA for 80 percent of the cost for this important noise abatement and community program.

Massport also continued to improve its record of hiring women, minorities and residents of those communities most directly affected by Authority operations. At the end of FY 85, women comprised one fourth of the Authority's 806-person workforce and 30 percent of its professional and administrative ranks. Members of minority groups held 12 percent of all jobs and 18 percent of professional and administrative positions. Nearly a quarter of all Massport employees live in one of what the Authority defines as "impacted" communities.

Massport's Youth Employment and Training Program, YETP, was started to place youngsters from Boston and communities surrounding Logan in entry level jobs at the airport. Massport's Compliance Department is looking into a set-aside program for women-owned businesses similar to the one already in place for minority-owned firms.

On December 31, 1984 the Logan Airport Fire Department hired its first female firefighter, Angela Adamo of Holbrook, a former Emergency Medical Technician.



Building For The Future.

Massport is under contract with the Commonwealth of Massachusetts to serve as manager of the highly innovative State Transportation Building (STB) in Boston's Park Plaza. Because of Massport's unique experience with both public and private sector real estate, the STB is the only building in the Commonwealth managed by a tenant agency.

The idea, according to Massport's Deputy Director for Property Management Paul McGinn, is for the Commonwealth to utilize Massport's management expertise to maintain a high quality environment for all tenants.

Among STB's unique services are: a library, an independent phone system, centralized copying and mail distribution, a conference center, employee lockers, a visitor information booth, public art program for lobby areas, and a soon-to-be-opened day care center for employees' children.

Massport also operates the building's underground garage and manages lease arrangements for the 60,000 square foot ground floor retail space—another unusual feature of STB.

The building design features an innovative HVAC (heating, ventilating and air conditioning) and energy management system that recycles heated and cool air without traditional sources of power; in the first year of operation, the system produced a cost avoidance of \$1.1 million and a savings of \$10,000.

Transportation Secretary Fred Salvucci describes the chief advantage of bringing all the State's major transportation agencies together: "Better communication. Massport depends on other transportation agencies—the Department of Public Works, the Turnpike Authority, the MBTA—to transport people and goods to and from its airport and seaport. Now every agency that can solve our downtown ground access problems is under one roof."



The Massachusetts Port Authority

The Honorable

Michael S. Dukakis

Governor of the Commonwealth of
Massachusetts

The Honorable

Frederick P. Salvucci

Secretary, Executive Office of Transportation
and Construction

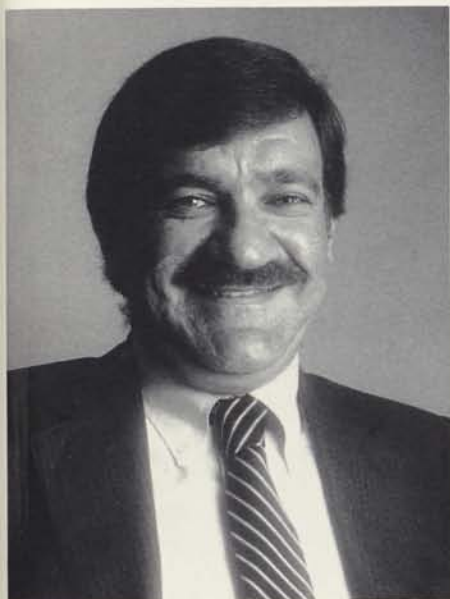
Massport Board Members



Richard A. Giesser, Chairman, is Chairman of the Small Business Foundation of America in Boston. Term expires 1989.



E. Paul Robsham is president of Robsham Industries, a real estate development firm in Framingham, Massachusetts. Term expires 1988.



John A. Vitagliano, Vice Chairman, is Assistant Superintendent of Tolls Collection for the Massachusetts Turnpike Authority. Term expires 1992.



Charles M. Raso is business manager of the Bricklayers and Allied Craftsmen Union, Local #3, in Boston. Term expires 1986.



Jacquelyn R. Smith is financial manager of Bicknell and Smith, a law firm in Cambridge, Massachusetts. Term expires 1987.



Miguel A. Salut is executive director of Oficina Hispana, a non-profit educational and social service agency in Boston. Term expires 1990.



Paul F. Nace is president of Paul Nace and Associates, a real estate development and consulting firm in Boston. Term expires 1991.

The Massport Board consists of seven members appointed by the Governor of Massachusetts to staggered terms of seven years each. Members serve without compensation.

Coopers & Lybrand
Independent Certified Public Accountants

Massachusetts Port Authority
Boston, Massachusetts

We have examined the balance sheets of Massachusetts Port Authority as of June 30, 1985 and 1984, and the related statements of income and changes in retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Massachusetts Port Authority at June 30, 1985 and 1984, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted auditing principles applied on a consistent basis.

Coopers & Lybrand

Boston, Massachusetts
August 26, 1985

Massachusetts Port Authority
Balance Sheets
June 30, 1985 and 1984

	1985	1984
	<i>(Dollar amounts in thousands)</i>	
Assets		
Cash (Note C)	\$ 1,469	\$ 575
Investments in U.S. Government obligations and certificates of deposit at amortized cost, which approximates market, including accrued interest (Notes C and G)	169,811	122,665
Accounts receivable, less allowance for doubtful accounts of \$1,321,000 in 1985 and \$767,000 in 1984	11,392	12,059
Prepayments and other assets	5,999	5,484
	<u>188,671</u>	<u>140,783</u>
Investments in facilities (Note D):		
Facilities completed:		
Airports	469,450	449,473
Bridge	62,893	59,340
Port (Note I)	<u>118,119</u>	<u>114,838</u>
	650,462	623,651
Less accumulated depreciation and amortization	<u>(242,986)</u>	<u>(219,769)</u>
	407,476	403,882
Construction in progress	58,831	31,235
Net investment in facilities	<u>466,307</u>	<u>435,117</u>
Total Assets	<u>\$654,978</u>	<u>\$575,900</u>
Liabilities and Fund Equity		
Liabilities		
Accounts payable and accrued expenses	\$ 17,813	\$ 13,981
Accrued pension cost (Note H)	6,109	6,409
Accrued interest payable	9,736	11,512
Notes payable (Notes E and G)	23,000	22,400
Funded debt (Notes F and G)	<u>273,515</u>	<u>227,450</u>
Total Liabilities	330,173	281,752
Deferred income	2,071	1,858
Contingent liabilities and commitments (Notes I, K and M)		
Fund Equity (Notes B and C)		
Retained earnings	280,075	251,669
Contributed capital, grants-in-aid of construction	<u>42,659</u>	<u>40,621</u>
Total Fund Equity	<u>322,734</u>	<u>292,290</u>
Total Liabilities and Fund Equity	<u>\$654,978</u>	<u>\$575,900</u>

Massachusetts Port Authority

Statements of Income and Changes in Retained Earnings

for the years ended June 30, 1985 and 1984

	<u>1985</u>	<u>1984</u>
	<i>(Dollar amounts in thousands)</i>	
Revenues (Note B):		
Tolls, fees and sales of services	\$ 61,690	\$ 57,224
Rentals (Note L)	29,202	27,216
Concessions (Note L)	41,118	34,492
Income on investments (Note A)	13,187	16,116
Other	<u>2,045</u>	<u>1,315</u>
Total Revenues	<u>147,242</u>	<u>136,363</u>
Expenses (Note B):		
Operations and maintenance	52,640	48,793
Administration	18,682	15,062
Insurance	1,604	1,416
Pension cost (Note H)	1,780	2,896
Interest (Note A)	17,605	20,663
In lieu of taxes (Note J)	<u>5,535</u>	<u>5,255</u>
Total Expenses	<u>97,846</u>	<u>94,085</u>
Income before depreciation and amortization and extraordinary item	49,396	42,278
Depreciation and amortization, including \$2,549,000 in 1985 and \$2,337,000 in 1984 on assets acquired with contributed capital, grants-in-aid of construction	<u>23,539</u>	<u>22,488</u>
Income before extraordinary item	25,857	19,790
Extraordinary item:		
Loss on extinguishment of debt (Note G)	<u>—</u>	<u>708</u>
Net income	25,857	19,082
Add credit arising from transfer of depreciation to contributed capital	2,549	2,337
Retained earnings, at beginning of year	<u>251,669</u>	<u>230,250</u>
Retained earnings, at end of year	<u>\$280,075</u>	<u>\$251,669</u>

The accompanying notes are an integral part of the financial statements.

Massachusetts Port Authority
Statements of Changes in Financial Position
for the years ended June 30, 1985 and 1984

	<u>1985</u>	<u>1984</u>
	<i>(Dollar amounts in thousands)</i>	
Funds Provided From:		
Income before extraordinary item	\$ 25,857	\$ 19,790
Adjustments for noncash transactions:		
Depreciation and amortization	<u>23,539</u>	<u>22,488</u>
Funds provided from operations before extraordinary item	49,396	42,278
Loss on extinguishment of debt	—	(708)
Contributed capital, grants-in-aid of construction	4,587	3,266
Increase in deferred income and liabilities other than funded debt and notes payable	1,969	2,648
Issuance of funded debt	49,000	—
Issuance of notes payable	<u>600</u>	<u>—</u>
Total Funds Provided	<u>105,552</u>	<u>47,484</u>
Funds Applied To:		
Cost of facilities	54,729	28,492
Retirement of funded debt	2,935	57,760
Reduction in notes payable (Note G)	—	600
(Decrease) increase in other assets	<u>(152)</u>	<u>3,027</u>
Total Funds Applied	<u>57,512</u>	<u>89,879</u>
Net Increase (Decrease) In Cash And Investments	<u><u>\$ 48,040</u></u>	<u><u>\$ (42,395)</u></u>

Massachusetts Port Authority Notes to Financial Statements

The Massachusetts Port Authority is a public instrumentality created by an act of the legislature of The Commonwealth of Massachusetts (Enabling Act), effective June 21, 1956. The Authority has no stockholders or equityholders. The provisions of the Enabling Act and the 1978 Trust Agreement (Trust Agreement) with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds.

A. Accounting Principles:

Facilities are carried at cost, and include the expenditure of Federal Aviation Administration and Economic Development Administration grants-in-aid of construction and the cost of significant renewals and betterments. Expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning generally in the fiscal year during completion of construction. Depreciation has been computed on facilities which have been recorded in the accounts of the Authority, including those financed by grants for construction.

The Authority capitalizes interest in accordance with Financial Accounting Standards Board Statement No. 62 which requires the capitalization of interest cost of restricted tax-exempt borrowings less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of \$1,078,000 in 1985 and \$3,350,000 in 1984, reduced by interest income of \$1,404,000 in 1985 and \$1,402,000

in 1984, has been capitalized as a part of the cost of construction projects with a corresponding reduction of interest expense and income on investments included in the Statements of Income.

The adoption of these practices has no effect upon the disposition of cash revenues of the Authority which is determined in accordance with provisions of the Enabling Act and the Trust Agreement. (See Note B.)

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement with the Authority's bondholders prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including transfers to the self-insurance account, cash revenues are then transferred to the Port Properties Fund, the Interest and Sinking Fund (which is applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the In Lieu of Taxes Fund, and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Massachusetts Port Authority
Notes to Financial Statements, Continued

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement, continued:

Presented below are the fiscal 1985 and 1984 revenues and operating expenses as determined in accordance with the Trust Agreement and a reconciliation to income before depreciation, amortization and extraordinary item as presented in the Statements of Income under Generally Accepted Accounting Principles (GAAP).

Fiscal 1985							Fiscal 1984
(Dollar amounts in thousands)							
	Bridge	Airport Properties	Port Properties*		Facilities Management	Investment Income	Combined Total
			Maritime	Development**			Combined Total
Revenues:							
1978 pledged revenues	\$6,545	\$ 51,142	\$ —	\$ —	\$ —	\$12,103	\$ 69,790
Other	—	53,051	20,728	1,699	765	265	69,853
	<u>\$6,545</u>	<u>\$104,193</u>	<u>\$20,728</u>	<u>\$1,699</u>	<u>\$765</u>	<u>\$12,368</u>	<u>\$146,298</u>
							<u>\$136,527</u>
Operating Expenses:							
Operations and maintenance	\$1,798	\$ 33,239	\$16,023	\$1,267	\$313		\$ 52,640
Administration	1,097	12,287	3,923	963	412		18,682
Insurance	253	1,018	415	150	8		1,844
Pension (Note H)	171	1,413	349	96	51		2,080
Loss on sale of equipment	—	—	197	—	—		197
	<u>\$3,319</u>	<u>\$ 47,957</u>	<u>\$20,907</u>	<u>\$2,476</u>	<u>\$784</u>		<u>\$ 75,443</u>
							<u>\$ 68,692</u>
Excess of Revenues Over Operating Expenses Under Trust Agreement							\$ 70,855
							\$ 67,835
Add: Self Insurance Cost (Expensed Under Trust Agreement; Not an expense under GAAP.)						240	242
Add: Pension Cost (Pension cost is greater under Trust Agreement than under GAAP.)						300	283
Add: Difference on loss on sale of equipment (Equipment is not depreciated under Trust Agreement. Equipment sold was fully depreciated under GAAP. Equipment with an original cost of \$322,000 was sold for an amount of \$125,000, thereby resulting in a loss of \$197,000 under the Trust Agreement, and a gain of \$125,000 under GAAP.)						322	—
Add: Interest income/1982 Construction Fund (Interest income on 1982 Construction Fund recorded as an addition to the 1982 Construction Fund under Trust Agreement; Recorded as revenue under GAAP.)						819	—
Less: Payments in lieu of taxes (Not an operating expense under Trust Agreement; Expensed under GAAP.)						(5,535)	(5,255)
Less: Interest on funded debt and notes payable, net of interest capitalized on projects under construction (Not an operating expense under Trust Agreement; Expensed under GAAP.)						(17,605)	(20,663)
Less: Interest income from short-term notes included in pledged revenues (Recorded as revenue under Trust Agreement; Recorded as reduction of interest expenditure capitalized (not as revenue) under GAAP.)						—	(164)
Income Before Depreciation, Amortization and Extraordinary Item Under GAAP							\$ 49,396
							\$ 42,278

*None of the revenue from Port Properties is available for debt service other than for interest and principal for all bonds issued for paying the cost and improvements to Port Properties. Under the Enabling Act, the revenue from Port Properties, after certain deductions as defined therein, is to be paid to The Commonwealth of Massachusetts (Note I).

**Development includes the activities related to the Authority's alternative use program, principally for Commonwealth Pier, Fish Pier and Hoosac Pier.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement, continued:

Under the provision of the Trust Agreement all revenues derived from operation of the Tobin Memorial Bridge, all aircraft landing fees and motor vehicle parking fees derived from the operations of the airport properties, and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year. At June 30, 1985, unexpended pledged revenues remaining in fund balances, excluding the 1978 Debt Service Fund, were \$39,364,000.

C. Cash and Investments:

The following summarizes the Authority's cash and investments at June 30, 1985, by the various funds and accounts established under the 1978 Trust Agreement with the Authority's bondholders.

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
	<i>(Dollar amounts in thousands)</i>		
Use defined for specific purposes*:			
1978 Debt Service Fund	\$ 511	\$ 32,001	\$ 32,512
Operating Fund, including			
appropriations for self-insurance	101	5,132	5,233
Maintenance Reserve Fund	35	40,629	40,664
In Lieu of Taxes Fund	12	3,252	3,264
Improvement and Extension Fund	785	56,665	57,450
1982 Construction Fund	3	2,401	2,404
1984 Interest & Sinking Fund	14	4,884	4,898
1984 Construction Fund	8	24,847	24,855
	<u>\$1,469</u>	<u>\$169,811</u>	<u>\$171,280</u>

*See also Note B for the amount of unexpended pledged revenues at June 30, 1985.

The Authority's investments include repurchase agreements which are collateralized by obligations of the Federal government. The collateral is held in custody by a bank for the benefit of the Authority.

D. Investments in Facilities and Depreciation:

Investments in facilities at June 30, 1985 and 1984, comprise:

	<u>1985</u>	<u>1984</u>
	<i>(Dollar amounts in thousands)</i>	
Facilities completed:		
Land and land improvements	\$ 82,087	\$ 79,175
Bridge and bridge improvements	61,756	58,496
Buildings	332,085	325,970
Runways and other paving	150,388	139,925
Machinery and equipment	24,146	20,085
Accumulated depreciation	<u>(242,986)</u>	<u>(219,769)</u>
	407,476	403,882
Construction in progress	<u>58,831</u>	<u>31,235</u>
Net investment in facilities	<u>\$466,307</u>	<u>\$435,117</u>

Asset lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities—buildings, runways and other paving	10 and 25 years
Port facilities—buildings and piers	25 years
Machinery and equipment	10 years

Massachusetts Port Authority
Notes to Financial Statements, Continued

E. Notes Payable:

The Authority has outstanding at June 30, 1985 short-term notes totaling \$23,000,000 with various maturities up to 360 days and interest rates from 4% to 5½% (See Note G). The notes are subordinated to bonds issued under the Authority's Trust Agreement and to certain other obligations. The notes are collateralized by a pledge, which is subordinated as described above, of all amounts on deposit in the Improvement and Extension Fund including amounts in the Capital Budget Account.

In connection with the issuance of these notes, the Authority obtained a commitment from a financial institution under which it may borrow under a revolving credit agreement up to \$24,000,000 solely for the purpose of paying maturing short-term notes. The Authority is required under the note agreement to borrow under the credit agreement to the extent that it does not have other moneys available to pay the principal and interest on the notes when due. There were no borrowings against this commitment at June 30, 1985.

F. Funded Debt:

Funded debt at June 30, 1985 (See Note G), is comprised of:

(Dollar amounts in thousands)

Revenue Refunding Bonds, <i>Series 1978*</i>			Adjustable Rate Revenue Bonds, <i>Series 1984**</i>		
Maturity on July 1	Interest Rate	Amount	Interest Rate	Amount	Total
Serial bonds:					
1985	5.9%	\$ 3,105	See Below**	\$ —	\$ 3,105
1986	6.0	3,300		170	3,470
1987	6.0	3,505		190	3,695
1988	6.1	3,720		220	3,940
1989	6.2	3,955		245	4,200
1990	6.3	4,000		280	4,280
1991	6.4	4,265		315	4,580
1992	6.5	4,545		355	4,900
1993	6.6	4,840		400	5,240
1994	6.7	5,165		450	5,615
1995	6.8	5,520	510	6,030	
1996	6.8	5,905	575	6,480	
1997	6.9	6,305	645	6,950	
Thereafter				44,645	44,645
Total Serial Bonds		58,130		49,000	107,130
Term bonds:					
1998-2012	7.125	166,385		\$ —	166,385
Total funded debt		\$224,515		\$49,000	\$273,515

*See Note B for revenues pledged as security for the 1978 Bonds.

**The 1984 Bonds bear interest at a variable rate, not to exceed 12¾%.

Interest is payable semi-annually on July 1 and January 1 (Interest Payment Dates) of each year. The annual rate of interest is adjusted on each Interest Payment Date for the succeeding six month period, to a market rate determined by a Remarketing Agent under the terms of a Remarketing and Indexing Agent Agreement. The bonds were issued in November, 1984 at an initial rate of 6¼%. The rate was adjusted to 4¾% on July 1, 1985 for the six month period ending December 31, 1985.

F. Funded Debt, continued:

Holders of the 1984 Bonds have the right to tender all or any portion of their 1984 Bonds for purchase at par on any Interest Payment Date. Such bonds may be purchased at par by the Authority or remarketed at par by the Remarketing Agent. In connection with the issuance of the 1984 Bonds, the Authority entered into a Stand-By Purchase Agreement with a financial institution, whereby the financial institution agreed to purchase at par, any and all tendered 1984 Bonds, to the extent that such bonds are not previously purchased by the Authority or remarketed by the Remarketing Agent. On the most recent Interest Payment Date, July 1, 1985, all tendered bonds were remarketed by the Remarketing Agent.

The Authority may redeem the 1984 Bonds at par, in whole or in part, on any Interest Payment Date.

G. Extinguishment of Debt:

On July 10, 1984, the Authority defeased, by depositing cash and securities with a trustee, all of its outstanding Revenue Bonds Series 1982 aggregating \$54,550,000. The defeasance and the resulting extraordinary loss of \$708,000 were reflected in the financial statements as of June 30, 1984. In addition, the July 1, 1984 redemption of \$230,000 of Series 1982 Revenue Bonds and the required reduction in short-term notes payable on July 9, 1984 of \$600,000 were reflected in accounts payable in the accompanying financial statements, as of June 30, 1984.

H. Pension Costs:

In July of 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 and signed into law on July 18, 1978. This enactment provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to

this enactment Authority employees were members of the state employees' system and the funding of the pension liability was on a "pay as you go" method. Pursuant to this enactment the employees' present rights and benefits were transferred to the new system and the Authority established a separate pension fund. The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

For the financial statements prepared in accordance with generally accepted accounting principles, pension expense includes current service cost and amortization of past service costs determined as of July 1, 1973, over a 25-year period commencing in fiscal 1974. In addition, certain actuarial assumptions underlying the actuarial computation of pension expense changed, resulting in a decrease to the Authority's fiscal year 1985 pension expense. Total pension expense so determined was \$1,780,000 in fiscal 1985 and \$2,896,000 in fiscal 1984.

The accumulated plan benefits and plan net assets at January 1, 1984 and 1983, are as follows:

	Actuarial present value of accumulated plan benefits:	
	1984	1983
Vested	\$24,215,469	\$20,730,061
Nonvested	233,792	360,584
	<u>\$24,449,261</u>	<u>\$21,090,645</u>
Net assets available for benefits	<u>\$27,123,726</u>	<u>\$20,762,392</u>

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%.

Plan assets have been accumulated by making contributions equal to current year costs plus amortization of past service costs determined on a going concern basis, while the determination of the actuarial present value of accumulated plan benefits as presented above is essentially a "plan termination" type calculation which uses methods and assumptions which are not comparable with the methods and assumptions used to determine current year pension costs. In addition, the fair value of net assets available for plan benefits will fluctuate. Because of the differences in computational methods and the fluctuations in the fair value of net assets, the actuarial present value of accumulated plan benefits and the fair value of net assets available for plan benefits are not readily comparable.

In addition to providing pension benefits, the Authority provides certain health care benefits for retired employees through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums, when paid. This expense was \$185,000 for the year ended June 30, 1985.

Massachusetts Port Authority Notes to Financial Statements, Continued

I. Contingent Liabilities and Commitments:

Payments to The Commonwealth of Massachusetts for Port Facilities:

As consideration for the Port Properties acquired from the Commonwealth on February 17, 1959, the Authority is required by the Enabling Act to pay annually to the Commonwealth an amount contingent upon cash revenues from the Port Properties for the preceding fiscal year exceeding certain related cash expenditures until the Authority has paid an amount as defined in the Enabling Act. At June 30, 1985, the amount contingently payable to the Commonwealth, not reflected in the financial statements, aggregated \$17,898,000. Included in investments in facilities are payments of \$899,000 made to the Commonwealth for these Port facilities.

Cash expenditures from these properties exceeded related revenues by \$8,949,000 in fiscal 1985, which amount has been added to such prior years' deficiencies of \$71,447,000. The cumulative cash deficit of \$80,396,000 is to be applied against future Port Properties net revenues before payments are required in future years.

Contractual obligations for construction:

Contractual obligations for construction were approximately \$46,087,000 at June 30, 1985.

J. In Lieu of Taxes:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements to make annual in lieu of tax payments to Boston, Chelsea and Winthrop.

These agreements and annual extensions currently provide for payments

aggregating approximately \$5,535,000 to these cities, of which \$4,500,000 is subject to annual adjustment through 1988 by reference to an index related to the consumer price index and Logan airport commercial passenger enplanements.

The agreements extend from fiscal 1988 through fiscal 1993, although the amount of in lieu of tax payments during this extension period is subject to the results of best efforts negotiations. The annual payments are not to exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payments to the Commonwealth (See Note I), payment of operating expenses and the deposits to the Maintenance Reserve Fund.

K. Litigation:

On January 23, 1982, a DC-10 aircraft operated by World Airways, Inc., carrying 209 passengers and crew ran off the end of runway 15R into Boston Harbor while landing at the Airport. The accident resulted in considerable damage to the aircraft as well as numerous claims of injury. Two passengers remain missing and are presumed to be fatalities. To date 40 lawsuits have been filed naming or joining the Authority as a direct or third-party defendant. These lawsuits include personal injury actions by passengers and members of the flight crew, an action by Hughes Aircraft Corporation alleging damage to certain flight instruments on board the aircraft at the time of the incident, and third-party complaints and a direct complaint filed by World against both the Authority and the Federal Aviation Administration (FAA). The Third-Party Complaint in one of these cases as well as the direct complaint filed by World Airways seek \$75,000,000 in damages as a result of damage to and loss of use of the aircraft in question as well as indemnification or contribution from both third-party defendants for any sums World Airways is obligated to pay to passengers for personal injuries. World has also moved to amend its direct complaint against

the Authority to include a claim under Massachusetts General Laws c. 93A which prohibits unfair or deceptive acts and practices in trade or commerce and provides for treble damages in the event of a knowing or willful violation. The Authority has filed its opposition to this motion. The Authority has also filed appropriate responsive pleadings in each of the lawsuits denying all liability and containing appropriate cross claims. In addition to the lawsuits, 17 claims arising out of this incident have been filed with the Authority to date. Any additional claims or lawsuits filed against the Authority alleging negligence may be barred by the three year statute of limitations governing such suits.

The Authority's airport liability insurance policies in effect at the time of the incident consist of: (1) a primary policy with limits of \$3 million for property damage and \$5 million for bodily and personal injury and (2) an excess liability policy with a combined single limit of \$100 million. Although the outcome of this litigation cannot be predicted with certainty, based upon their investigation and analysis of the asserted claims following extensive discovery to date the Authority's litigation counsel retained by its primary insurer believe that the Authority has meritorious legal and factual defenses to each of the cases and claims asserted to date. In addition, such counsel believe that existing levels of insurance (both primary and excess) are likely to be adequate to meet any liability on the part of the Authority for such claims. Although it is unable to predict the nature or amount of additional claims that may be asserted against the Authority in the future as a result of this incident, the Authority believes that existing levels of insurance are likely to be adequate to meet any liability on its part for all claims arising out of this incident. Accordingly, the Authority does not expect that these matters will require amounts to be paid, if any, which in the aggregate will have a material adverse effect on its financial condition.

L. Leases:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income received under these provisions was approximately \$13,874,000 in fiscal 1985 and \$12,566,000 in fiscal 1984.

Minimum future rentals, excluding contingent rentals, receivable from noncancelable operating leases as of June 30, 1985 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
	<i>(Dollar amounts in thousands)</i>
1986	\$ 14,430
1987	13,511
1988	12,791
1989	11,703
1990	11,352
Thereafter	<u>134,305</u>
	<u>\$198,092</u>

N. Subsequent Event:

On August 22, 1985, the Board of Members of the Authority adopted resolutions which could result in the issuance of Revenue Refunding Bonds. The proceeds from the issuance of the bonds will be used to refund the outstanding notes payable (*See Note E*) and the adjustable rate revenue bonds, Series 1984 (*See Note F*).

1. Related Party:

In June of 1984, the Authority entered into a lease agreement (expiring in June of 1988) with the Commonwealth of Massachusetts for office space at the State Transportation Building. Under the terms of the lease, the Authority paid rental fees of approximately \$834,000 in fiscal 1985 to the Commonwealth of Massachusetts. The Authority also entered into a contract which expired on June 30, 1985 and was renewed through June 30, 1986, to provide building management services for the State Transportation Building. Consideration for these services was \$199,000 in fiscal year 1985. The Commonwealth of Massachusetts also reimbursed to the Authority approximately \$566,000 of direct building management expenses incurred by the Authority and approximately \$3,600,000 for building expense paid by the Authority on behalf of the Commonwealth of Massachusetts.

Massachusetts Port Authority

Properties and Performance, FY 85

Gross revenues, Authority-wide \$147.2 million
Net revenues 70.9 million

(Does not include in lieu of tax payments,
interest on funded debt, or depreciation)

Logan International Airport

Total passengers 20.4 million
Domestic 17.1 million
International 2.2 million
Total pounds of cargo and mail 670.4 million
Compliance with Part 36, federal noise standards . . . 90.0 percent

Hanscom Field, civilian

Total operations 244,621

Port of Boston

General cargo, tons 1.1 million
Value of cargo \$4.0 billion

Moran Container Terminal

Containers handled 45,567

South Boston Terminals

(Conley and Massport Marine Terminals)

Containers handled 40,792
Imported automobiles 87,576

Memorial Bridge

Total vehicle crossings 24.9 million

Boston Fish Pier

Fish processed, pounds 38.8 million
Fish landed, pounds 15.5 million

Black Falcon Terminal

Cruiseship facility under construction

Constitution Plaza

Multi-purpose facility at Hoosac Pier,
leased to private development team

World Trade Center

International commercial facility at Commonwealth Pier,
leased to private developers

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